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AUTHOR Barkema, Alan D.; Drabenstott, Mark
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ABSTRACT

To gain a perspective on rural America's future, seven roundtables consisting of seven rural stakeholder groups were convened. Four groups of challenges facing rural areas emerged. The rural business environment was considered the source of greatest challenge. Agriculture concerns included low profits and access to world markets. The effects of increasing consolidation, and a lack of diversity were concerns within agriculture and across the rural business spectrum, as were the roles of government regulations and tax policies. Challenges of community included a shrinking rural population and its related effects on tax bases, provision of services, the quantity and quality of available human capital and leadership skills, persistent poverty, and limited rural experience in business and economic development. Challenges associated with place ranked third. Mobilizing rural residents, getting exposure to policymakers, maintaining existing infrastructures, and building a new telecommunications infrastructure are limited by remoteness. Particular financial concerns included limited access to capital and the loss of local control that accompanies the takeover of local banks. Policy recommendations included implementing a rural-friendly approach in new and existing policies, improving support for rural businesses, strengthening rural infrastructure, increasing regional cooperation, and making more capital available. Rural strengths were identified as a sense of community, rural quality of life and landscape, and faith in rural entrepreneurs. (TD)

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CENTER FOR THE STUDY OF RURAL AMERICA
Federal Reserve Bank of Kansas City

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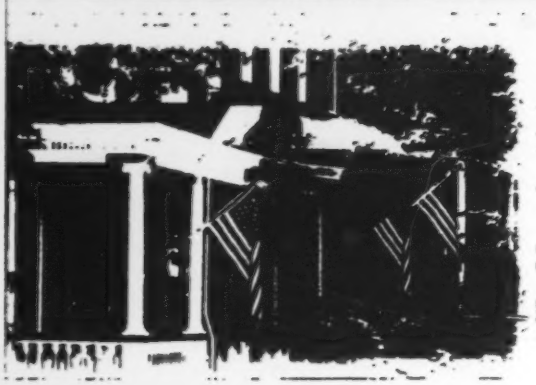
The Main Street Economist



How Rural America Sees Its Future

Alan D. Barkema
Vice President & Economist

Mark Drabenstott
Vice President & Director
Center for the Study of Rural America

How does rural America see its future? To answer that question, the Center partnered with the Bank's Community Affairs staff to host seven roundtables throughout the nation last summer. The roundtables revealed an across-the-board sense that Main Streets are at risk, with economic challenges rapidly mounting. Out-migration, limited leadership capacity, and a daunting rural business environment were all cited as key challenges. Rural groups also agreed that rural policies must change if those and many other challenges are to be met.

But there was little consensus on what policy changes hold the greatest promise. That lack of agreement contributes to an overall sense of frustration about where rural policy is headed.

Still, in the end virtually all participants were convinced that rural America has strengths on which to build a better future, none more important than a resilient rural spirit and an abiding commitment to rural places.

A complete discussion of the seven roundtables is available in the winter issue of the Bank's Community Affairs newsletter, *Community Reinvestment*.

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The seven roundtables were an important part of the Center's ongoing effort to understand rural America's unique challenges, opportunities, and policy issues. To gain a broad range of rural perspectives, each roundtable focused on a crucial rural stakeholder group: agriculture; business; cooperatives; finance; community and economic developers; foundations and other institutions; and public officials from local, state, and federal governments.

The roundtables ranged from 12 to 30 participants, a number small enough to encourage hearty discussion but large enough to reflect a diversity of views. The organizations we invited selected the leaders who attended and also helped identify other groups to include.

The roundtables were held at Federal Reserve offices throughout the nation: Atlanta, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, and Salt Lake City. The roundtables were not designed to be an exhaustive sampling of rural opinion, but they did produce extensive discussions about rural America's future. Thus, they provided a valuable reading on the pulse of rural America from a broad cross-section of rural stakeholders.

One focal point for discussion was the challenges facing rural America. Roundtable participants were asked to identify rural challenges and then rank them. A wide array of rural challenges emerged, but several common threads divided the challenges into four key groups: the rural business environment, the rural community, the rural place, and rural financial resources.

Challenges of the rural business environment

Overall, the roundtable participants identified the rural business environment as the source of rural America's greatest challenges. Low profits in agriculture received considerable attention. Participants at the agricultural roundtable ranked the challenges of the rural business environment much higher than any other group of participants. Of particular concern were access to world markets for U.S. farm products, the effects of increasing business consolidation in domestic markets, and the industry's lack of diversification and flexibility beyond traditional farm commodities.

The discussion of the rural business environment reached well beyond agriculture, however. Participants at the business roundtable were concerned rural America had fallen prey to a "feast or famine farm economy." Other roundtables suggested that rural America needs to foster a wider variety of businesses in addition to agriculture. Participants also observed that the role of government regulations and tax policy in the rural business climate deserves additional scrutiny.

The roundtables provided a valuable reading on the pulse of rural America.

A concern that surfaced at all the roundtables was the effects of business consolidation on prices and competition in rural areas. The so-called "Wal-Mart effect" was identified as a threat to local control and entrepreneurial activity, especially in retailing and banking. Some participants observed, however, that business consolidation was driven by the same market forces that enabled successful businesses and communities to prosper and grow.

Challenges of community

The roundtables ranked another set of community challenges as equally vital to the future of rural America—those associated with the people who live in rural places. Shrinking rural populations surfaced as a fundamental concern at several roundtables. For example, participants at the economic developers roundtable suggested that populations in some rural areas were shrinking below the "critical mass" necessary to sustain a community. The consequences of this outmigration are "gentrification" and erosion in the local tax base. Persistent poverty and a struggle to provide everyday services such as police protection were related concerns.

Similar community issues arose at other roundtables. A focal point at the business roundtable was the quantity and quality of human capital in rural places. Participants noted that the rural workforce and the local pool of important technical skills were shrinking with the rural population, constraining rural business activity. The finance roundtable noted that limited experience in both business and economic development was a further constraint in many rural communities.

Many participants noted that effective leadership skills—in both the public and private sectors—were becoming scarce in rural communities. A new kind of visionary leadership was identified as a pressing need. Future rural leaders must be able to forge regional partnerships. Only by transcending traditional political boundaries and governance structures can rural leaders address the new spectrum of rural issues.

Challenges of place

Ranking third in the roundtable participants' menu of rural challenges were those associated with place. For example, one participant observed that many rural communities in remote locations face a constant struggle against "the tyranny of distance." Other participants noted that the remoteness of many rural communities limits their exposure to policymakers and constrains their participation and influence in the political process. Efforts to mobilize rural residents and communities to achieve shared objectives are often rendered ineffective.

Another widely shared concern at the roundtables was the deteriorating quality of rural infrastructure. Participants named a menu of infrastructure components that needed to be maintained, rebuilt, or upgraded, at a cost that many rural communities cannot afford. Prominent items on the menu were roads, bridges, and

water and sewer systems. The "digital divide"—the gap in access to the Internet and the digital economy between rural and urban America—has rapidly become a leading infrastructure issue. Some participants noted that improved Internet access might also help bridge similar gaps in rural education and health care.

Challenges of financial resources

The fourth group of key rural challenges the roundtables identified related to financial resources. Of particular concern was access to capital. Participants noted that the menu of capital providers is typically much shorter in rural communities than in urban areas. Access to equity capital is especially limited in rural areas, which are generally beyond the scope of venture capitalists and other equity capital providers. But participants were also concerned with access to more traditional sources of capital. They noted in particular the loss of local control and decision making that might occur when local community banks are merged into bigger banks headquartered in distant urban centers.

The financial institutions roundtable cited an additional capital access issue common among many rural communities, especially those with shrinking populations. Local wealth creation is sluggish in many rural communities. Moreover, locally created wealth often leaves the community in bequests to distant heirs following the death of local residents.

The new rural policy landscape

Roundtable participants not only talked about challenges, they also suggested policies that would answer those challenges. Policy prescriptions ranged widely, from closing the rural digital divide to introducing new ways of making existing state and federal programs more sensitive to rural places. As we listened to stakeholders in the seven groups, there was really only one thing that united them: Rural policy needs to change. Put another way, simply extending current policies will leave many rural communities struggling. Many rural groups expressed frustration with the uncertainty hanging over the future course of rural policy.

Roundtable participants ranked a "rural-friendly" approach as their preferred policy response. Participants saw two ways to do this. Some groups favored a new holistic rural policy, a concerted effort to bring a coherent framework to all federal, state, and local rural initiatives. This view was favored, in particular, by several attendees at the community and economic developers session. Other groups favored introducing a new rural "sensitivity" into existing policies that impact rural America. For instance, several attendees at the foundations and institutions roundtable argued that current programs like Medicare and transportation policy fail to respond fully to rural needs because they do not consider differential impacts across urban, suburban, and rural constituencies.

Rural America's many assets are a starting point for rethinking rural policy.

Apart from these general approaches, participants also cited specific ways to make policy more rural friendly. Some wanted agricultural policy to emphasize more commercial products. Others wanted to realign rural policy governance, recognizing new market boundaries instead of historical administrative ones. Rural businesses stressed streamlining rural regulations and improving access to federal resources.

The second-ranked policy suggestion was to improve support for rural businesses generally. Taxes were a major concern. At the agriculture roundtable, there was strong support for replacing the current tax code with one that would eliminate death taxes, exchange consumption taxes for income taxes, and sharply reduce capital gains taxes. Another concern was ensuring that trade policy gives rural businesses good access to foreign markets. Many groups expressed concern that rural businesses can be at a disadvantage in competing internationally, yet all recognized the need to do so. Finally, most roundtable participants agreed that the cooperative business model works well in rural America. Suggestions were made that new laws might make it easier for cooperatives to form and grow.

One business policy that received considerable discussion was farm policy. Not surprisingly, the agriculture roundtable provided the strongest support for continuing aid to agriculture. Some groups clearly preferred tilting the policy emphasis toward broader economic initiatives, such as infrastructure. Foundations, institutions, and economic and community developers were the strongest proponents of this approach. Nevertheless, it was clear that there remains a strong residual support for agricultural programs, although financial institutions argued for a more sustainable means of delivering that support than the large emergency payouts of recent years. And among farm groups, there was also recognition that agricultural policy alone will not sustain Main Streets.

Policies to strengthen rural community infrastructure ranked third. New broadband infrastructure was viewed as a priority, although digital issues certainly did not dominate the discussion. Several programs to spur new investment in traditional infrastructure were mentioned frequently, as were programs to create affordable rural housing. Participants also expressed strong support for programs that support more and better community planning, noting that most rural communities need ways to build their leadership and planning capacity.

Finally, participants expressed some support for policies to make more capital available in rural America. The support was strongest, as expected, at the finance roundtable. Rural lenders expressed support for programs that would improve their access to loanable funds. Financiers and businesses alike expressed support for new initiatives aimed at making more equity capital available.

Building on rural strengths

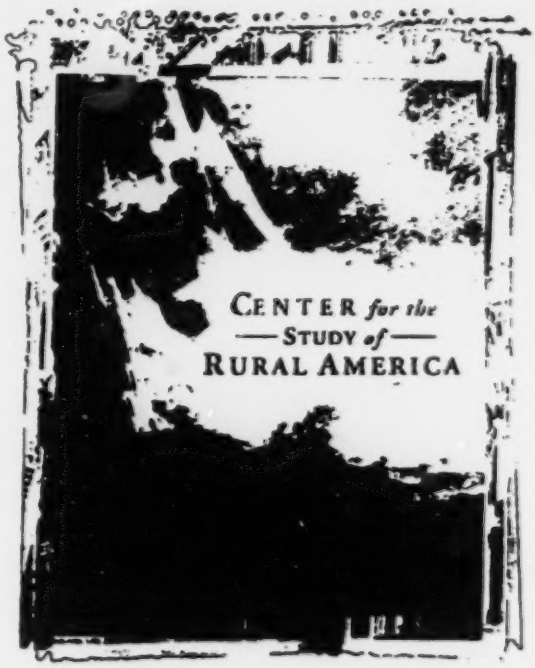
While rural stakeholders do not agree on where rural policy should go, they do agree that rural America still has some important strengths. These strengths tend to counterbalance the challenges and even the frustration over where rural policy is headed. For many participants, rural America's many assets are a starting point for rethinking rural policy.

Roundtable participants usually identified more challenges than strengths, but there was fairly strong consensus on what the strengths are. A sense of community was most often cited. This describes rural America's legendary work ethic, but also its resilience and ability to adapt to changing circumstances. Despite the onrush of technology, residents of most rural communities still see themselves depending on one another, and they see this very positively. Participants also view rural quality of life and the rural landscape to be big pluses on which to build a brighter future. Finally, most participants have a lot of faith in rural entrepreneurs and their ability to compete in the new economy. Farm and Main Street participants alike generally viewed agriculture as an important and strong foundation for further economic development.

These strengths make a good starting point for further dialogue on rural policy. Regardless of where rural policy goes, it will have to make the most of rural America's assets in meeting the challenges ahead. In that regard, the sense of community provides a good foundation for encouraging new partnerships in governing rural policy, an approach that is gaining favor in other countries.

Similarly, the business strengths that rural America sees in the future mark a logical starting point for new programs aimed at fostering new entrepreneurs and improving rural access to markets.

Finally, the importance of place to rural people promises to be the cornerstone of new efforts to make both old and new policies more sensitive to the unique needs of rural America.



Annual Report 2000

Exploring New Policies for a New Rural America

Federal Reserve Bank of Kansas City

Rural America began 2000 facing a huge challenge—a strikingly uneven rural economy. While the rest of the nation was celebrating a record-setting economic boom, much of rural America continued to struggle. In part, this imbalance reflected rural America's continued reliance on some traditional sectors like agriculture that have been in a slump. But it also reflected the difficulty of plugging rural America into a global digital economy.

Faced with new economic challenges, rural America has started to explore new policies to bolster its economic future. Many rural groups have become convinced that agricultural policy alone will not meet the challenges of Main Streets in the new century.

The Rural Center's 2000 annual report gives a glimpse of the uneven performance of the rural economy in 2000 and what direction rural policy discussions are taking. For a copy of the annual report, please visit our Web site at *www.kc.frb.org* or write us at:

Public Affairs Department
Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198

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